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ABSTRACT

This student guide is intended to assist persons employed as supervisors in understanding various wage payment systems. Discussed in the first four sections are the following topics: the aims and determination of payment (aims of a payment system, the economy and wage levels, the government and wage levels, and method of pay and wage levels); main payment systems not linking payment to results (time rates, flexitime, fixed wages, and incremental payment systems); main payment systems linking pay to results (piecework and commission, basic pay plus bonus, and other systems linked to results); and fair pay (fringe benefits, fair pay, and the role of job evaluation). Each of these sections contains an introduction, sections of instructional text that are interspersed with reinforcing learning activities, and a section summary. The fifth part of the guide includes a series of performance checks (an end check, a tutor check, and a work-based project). Concluding the guide is a unit review that reviews the objectives addressed in the guide, describes related extension courses, and lists recommended reference materials. (MN)

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An Open Tech Project

SUPERVISING
ECONOMIC AND FINANCIAL ASPECTS

73: Wage Payment Systems

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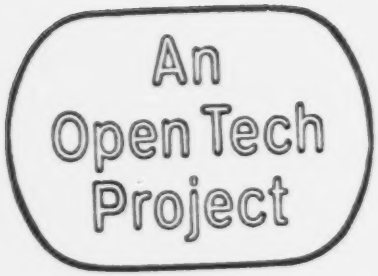
73: WAGE PAYMENT SYSTEMS

Ysanne Carlisle



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Ysanne Carlisle
Wage Payment Systems (Number 73 in the CHOICE SERIES of learning units)

Series Editor: Harry V Pardue
Northern Regional Management Centre.

WORKING GUIDE TO THIS UNIT IN YOUR DEVELOPMENT PROGRAMME

This Unit is now your personal property - it's not for handing back to your training officer or to a tutor. It is your working book.

The Contents will increase in value to you each time you write on one of its pages. This is a working text for your personal notes - without notes its value is limited.

Qualifications forget about certificates and diplomas - you don't need them for this programme. What you do need is the wish:-

* to do your job better
* for personal development

Your study time is really up to you - we guess you will need about 8 hours in total. But it's your time - spend as long as you like.

How am I doing? you can judge for yourself by checking out how well you cope with the tasks we call Activities and Self Checks which occur throughout the unit. You can also get the Tutor Check and/or the Work Based Project to your tutor for an unbiased view of your progress.

Work Pace it's really up to you and depends on your interest. However, if you do well on the Activities and Self Checks, you could afford to speed up a little. Of course, if you don't do as well as you expect then you could slow down a little or flick back into the unit for a quick review of the more difficult ideas.

When in doubt - ask or seek help from:

* your family and friends
* colleagues at work
* your company training staff
* other open learners
* your tutor, by phone, by a visit to your support centre or by dropping your tutor a line through the post.

Don't worry if what you learn doesn't seem to be of use to you now, remember that times change - it may be useful one day. Anyway, just knowing more improves personal confidence.

So now make a start:-

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73: WAGE PAYMENT SYSTEMS BY Ysanne Carlisle

ABOUT THIS UNIT

Managing payment systems, involving government regulations, union bargaining and the strong feelings of the workforce on the subject can make the whole question of payment systems seem difficult and complex. Individual supervisors may have very little say in wage and salary affairs since collective bargaining often fixes rates and company practices are often routine. But it is important for the first line manager to understand the aims of payment systems, how wage levels are arrived at and how they operate. It is the supervisor who has regular contact with the workforce and he is likely to be the first person to become aware of problems. If a system is seen as unfair a supervisor can spot a possible problem of morale which may arise in the future. It is also the supervisor who is best placed to tell whether or not payment systems are functioning properly to fulfil the aims intended for them.

IN THIS UNIT WE WILL

* develop an awareness of the aims of payment systems in general and help you towards a better understanding of how wage levels are arrived at
* consider how the main types of payment system operate
* develop an awareness of the effects of payment systems on employees

AUDIO TAPE Side 1

Before you continue through this unit, you should now listen to side 1 of the audio tape that accompanies the unit. You will find it useful if you refer to the unit objectives shown below whilst you listen to the tape. You may wish to make the objectives clearer to yourself by making a note or two on the page as you listen.

OBJECTIVES

When you've worked through this unit you will BE BETTER ABLE to

* monitor whether payment systems are achieving their aims
* understand the factors which affect the fixing of wage levels
* describe how the main types of payment system operate
* assess the effects of differing types of systems on employee attitudes, morale and motivation.

PART A THE AIMS AND DETERMINATION OF PAYMENT

1 Introduction

Wages and payment systems are important to supervisors who are responsible for motivating workteams as wage structures can have a motivating or de-motivating influence on individuals at work. They can affect attitudes and approaches to work. In this part we will look at the aims of a good payment system and the sorts of things which influence and determine what a person's actual pay will be.

2 Aims of a Payment System

Pay and payment systems are frequently discussed in the press, on TV and are never far from the thoughts of many workers in many industries. Things like wage levels and rates for jobs are common concerns.

ACTIVITY 1
Time guide
2 mins

Spend a minute or two thinking about the aspects of pay which concern people at work and write down two examples

eg levels of pay increases

* _____

* _____

We have already mentioned wage levels and rates for the job and you could add to these things like:

* Differentials, or differences in rates of pay between different groups
* Changes in pay structures
* Whether or not a payment system is fair
* Changes in pay resulting from changes in technology

The list could be very long and quite possibly you have thought of other aspects of the problem which I haven't mentioned.

REFERENCE 1
page 66

Certainly how people are paid affects their attitude to the job so perhaps we should begin by asking ourselves:

What should the aims of a payment system be?

ACTIVITY 2
Time guide
3 mins

Suppose you are an employer.

What would you want your wage payment system to achieve?

Write down what you think three of the aims of your wage payment system should be.

eg to reward good performance

* _____

* _____

* _____

The aims of a wage payment system could be very far-reaching and the points you have included on your list will probably vary and reflect your particular experience. However, I hope we can agree that these are important aims for any wage payment system:

* to attract enough employees with the right qualifications, experience and potential for improvement.

* to keep employees within the organisation and keep labour turnover to a minimum.

* to have a payment system which employees see as being fair and providing acceptable living wages.

* to encourage employees to do their best.

* to ensure that the organisation gets 'value for money' for what it spends on labour.

You may also have included some important aims on your list which are to do with the problem of

PAY DIFFERENTIALS

This is the problem of maintaining the differences between groups according to how jobs are valued, what they are worth or how easy or difficult they are.

Having identified the aims of a wage payment system - what you hope to achieve by the money you spend on employing people - let's now look at some of the things which may influence the levels of pay you arrive at.

3 The Economy and Wage Levels

All sorts of factors can affect wage levels for example:

ACTIVITY 3
Time guide
4 mins

Suppose we want to compare wage levels in two factories, one in Liverpool and one in the London area. At the heavy engineering plant in Liverpool, where union membership is high, demand for the product is falling but the electronic component factory in London has full order books. Few of the employees belong to a union and they work a seven hour day in light, clean conditions unlike the Liverpool factory where two shifts are worked in hot, dirty and dangerous conditions.

Using these two factories as a guide, jot down a list of the factors which might affect wage levels.

* geographical location - where the factory is
*
*
*
*

REFERENCE 1
Page 66

We may not necessarily have listed the same points - wage determinants is a complex subject but among the major factors which will affect wage levels, I would include:

* Geographical location - many companies have to pay higher rates in London than, for example, Liverpool to meet employees' higher cost of living.

* Supply of labour - in an area where there is likely to be no shortage of people wanting jobs companies need not necessarily pay such high wages as they would in areas where the job might not be so attractive.

* Demand for labour - if many people are needed to do a certain job then wages will have to be high enough to attract them.

* The market - if order books are full and the future seems prosperous wage levels are likely to be higher than in an industry where demand for what is offered is falling.

* Power of the union - unions play a very influential part in determining wage levels in industries where membership is high.

* Conditions of work - wage levels will normally reflect the sort of conditions people are expected to work in. Thus, if you have to work shifts or you have to work in particularly hard or unpleasant conditions, then you would expect this to be taken into account in the wages paid.

You may also have thought, although it doesn't arise in the example that we've looked at, that the rate of inflation, the increase in the cost of living which we all have to cope with, will influence wage demands.

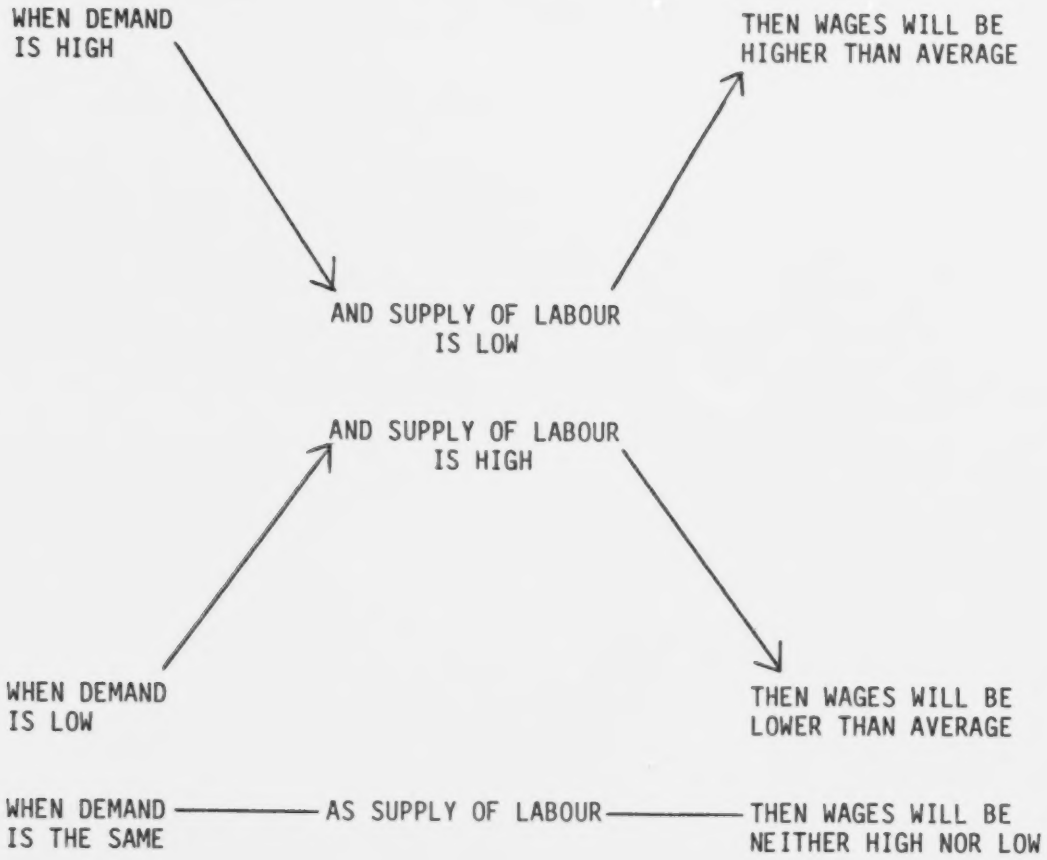
Let's look at two of those influences in a little more detail.

3.1 Supply and demand

Wage levels are affected by how many people are around and available to do a certain job: this is called the SUPPLY OF LABOUR.

They are also affected by how many companies need to employ those people to do certain jobs: this is called the DEMAND FOR LABOUR.

So we can say that:


WHEN DEMAND IS HIGH
THEN WAGES WILL BE HIGHER THAN AVERAGE
AND SUPPLY OF LABOUR IS LOW
AND SUPPLY OF LABOUR IS HIGH
WHEN DEMAND IS LOW
THEN WAGES WILL BE LOWER THAN AVERAGE
WHEN DEMAND IS THE SAME
AS SUPPLY OF LABOUR
THEN WAGES WILL BE NEITHER HIGH NOR LOW

ACTIVITY 4
Time guide
1 min

So supposing we take an area within easy travelling distance of a large industrial estate. There is plenty of unskilled labour available but very few vacancies for unskilled workers.

The supply of labour is large. The demand for labour is low. The labour market covers an area within easy travelling distance of possible employers.
So wage levels will tend to be _____.

Complete the last sentence with a suitable word.

Wage levels will tend to be low.

SELF CHECK 1
Time guide
3 mins

Think about these two situations and complete the statements which follow them with a suitable word or words.

a) There is a shortage of technicians in the electronics industry and a high demand for this type of labour in a labour market which covers the whole country.

* The supply of labour is _____.

* The demand for labour is _____.

* The labour market covers _____.

* Wage levels will tend to be _____.

b) There is a demand for undertakers in a local labour market in which the supply of undertakers roughly equals the demand for undertakers.

* The supply of labour is _____ to the demand for labour.

* The labour market covers _____.

* Wage levels will tend to be _____.

The answer to this self check is here in the following words, so you'll need to check out your answers carefully. a) In the electronics industry, there is a shortage of technicians so the supply of labour is low and the demand for labour is high in a labour market which covers the whole country, so wage levels will tend to be high. b) As far as undertakers are concerned, the supply of labour is roughly the same as the demand for labour in a labour market which covers a local area so wages will tend to be neither low nor high.

3.2 Worker organisation

ACTIVITY 5
Time guide
2 mins

Who can ensure that provided they are well organised and well-led employees can have a powerful voice in determining wage levels?

*

Our automatic response will probably be 'the unions'. And it's true that unions can be very influential in affecting wage levels, particularly the large unions where the number of people involved can pose the threat of a total stoppage of work.

But it isn't only the unions which have influence in this respect. Any organised group of workers with some degree of power is in a position to bargain with employers over wage levels and other working conditions. That power may come from a number of sources including things like

- a high level of training and skill in an area where labour is in short supply
- workers with special skills or training who are essential for providing basic services.

Many wage levels are determined by a process of Collective Bargaining. This is where a bargain is struck between a group of workers, a union, a workers' association or a group of unions and the management, the employer or an employers' association.

But it's not only economic factors which we've just been looking at which affect how wage levels are determined. Another very powerful factor is the influence of the government.

4 The Government and Wage Levels

ACTIVITY 6
Time guide
5 mins

Every government tries to influence wage levels in one way or another.

Jot down two ways in which the present government or a past government has tried directly to influence collective bargaining and wage levels.

eg a pay freeze

* _____

* _____

The list could be a long one.

You can check your responses against this list of government pay policies from the last forty years.

* From 1948 to 1950

  A wage freeze

* From 1961 to 1964

  A period of pay pause and restraint

* From 1964 to 1970

  A productivity, prices and incomes policy

* From 1975 to 1977

  The "social contract" which was a policy agreed between the trade unions and the government which had voluntary force

* From 1977 to 1979

  A prices and incomes policy. This was supported by not giving government contracts to firms which did not stick to the policy.

* From 1979 onwards

  Monetarist policies have been used to control inflation. In other words the government has tried to follow policies which make sure that any increase in wage levels is matched by increased output in the form of goods and services.

In addition to these policies government can also try to affect wage levels generally by the standard it sets for wage increases for people in the civil service and the public sector such as hospital staff, teachers, local government officials, electricity and waterboard employees.

As well as that, since 1979 the government has sought to have a direct influence on the pay increases received by some 7 million people employed in the public sector by

* introduction of cash limits

* ending public sector pay settlements based on comparability with private sector groups

* introducing market forces elements into pay offers.

This list of policies may already make the government look a very powerful factor in determining wages levels but the influence goes further than this.

Government policy affects the bargaining power of unions and employers in relation to each other.

ACTIVITY 7
Time guide
5 mins

Bearing in mind what we have already said about the effect of supply and demand of labour on wage levels, would you say the wage bargaining is likely to favour the unions or the employers in the following situations?

a) Government policy is designed to expand the economy so there are more businesses operating, more jobs being created and people have more money to spend as they wish?

Unions/employers?

b) Government policy is to decrease the amount of money in the economy to bring down inflation, so people are not so well-off, there are fewer jobs, businesses are cutting back and not investing in new projects?

Unions/employers?

---

a) The unions. Measures designed to expand or inflate the economy by increasing the amount of money and purchasing power tend to make unions relatively stronger than employers.

b) The employers. Measures designed to curb inflation and reduce purchasing power by reducing the amount of money in the economy tend to make employers relatively stronger than unions.

In other words the balance of bargaining power is in favour of employees when the economy is booming and there is a situation of nearly full employment. But the balance of bargaining power is in favour of employers when unemployment is high and the economy is in a period of slump or recession.

5 The Method of Pay and Wage Levels

Most people are aware of the cost of living and the effect of rising wage levels on prices. The problem is that as wages rise, so do prices. The cost of living rises leading to larger wage demands. Production, productivity and prosperity in terms of wage levels and what a given wage can buy are all linked. It is enough to mention this fact here, but if you would like to investigate these relationships further, then you might like to take up our first extension. This extension talks about the relationship between wages and prices, production, productivity and prosperity in greater detail.

EXTENSION 1
Page 65

In any organisation, people fit in to the payment structure which operates at the time. We can relate our pay to the pay of other people doing similar jobs. Often a person's ability to boost his basic wage will depend on what additional payments he can earn or receive on top of his basic pay.

ACTIVITY 8
Time guide
2 mins

Write down two examples of additional payments which somebody might earn on top of basic pay.

eg commission earned by salesmen

* _____

* _____

Again, our list could be a long one. You might have included

* overtime payments

* bonus payments

* shift allowances or unsocial hours payments

The type of additional payments a person can earn will depend on what type of payment system he is on. In the next two parts of this unit we'll look at some of the main payment systems in current use. Meanwhile you might like to answer the following self check on what we've said so far.

SELF CHECK 2
Time guide
10 mins

a) List 3 aims of a wage payment system.

* _____

* _____

* _____

Complete the following statements with a suitable word or words.

b) Collective bargaining takes place between groups of employees or their representatives and _____.

c) In collective bargaining _____ _____ and working conditions are determined.

Decide whether the following statements are TRUE or FALSE.

d) If the government follows policies to expand the economy increasing purchasing power, unions may be relatively stronger than employers in a bargaining situation. TRUE/FALSE.

e) If the government follows policies to slow down the economy, perhaps to curb inflation, employers may be in a relatively stronger bargaining position than the employees. TRUE/FALSE.

The answer to this self check is here in the following words, so you'll need to check out your answers carefully. a) The aims of a wage payment system are to attract enough employes with the right qualifications, experience and potential for improvement; to keep employees within the organisation and keep labour turnover to a minimum; to have a payment system which employees see as being fair and providing acceptable living wages; to motivate employees to do their best; to ensure that the organisation gets value for money for what it spends on labour. b) Employers or their representatives - collective bargaining takes place between employees and employers and it c) determines working conditions and wage levels. d) Measures designed to expand or inflate the economy by increasing the amount of money and purchasing power tend to make unions relatively stronger than employers, so this statement is true. e) It's also true that measures designed to curb inflation and reduce purchasing power tend to make employers relatively stronger than unions.

6 Summary

The aims of payment systems are:

* to attract and keep the employees you want

* to motivate them to work well

* to provide an acceptable living wage for employees and to get value for money for the employer

* to reward good performance

* to take into account the work of the job done and the relative skill or difficulty involved.

Factors which influence levels of pay are:

* the supply of labour and demand for labour in a particular labour market

* the power of the workforce because:

- they are strongly unionised

- they are well organised and led

- have a high level of training and skill in an area where there is a shortage

- have special skills which are essential to providing basic services

* government policy

* the method of pay.

PART B MAIN PAYMENT SYSTEMS NOT LINKING PAYMENT TO RESULTS

1 Introduction

There are many ways in which people can be paid. In this part of the unit we'll look at those methods which don't include any form of link between pay received and results obtained. In other words, where payments are basically fixed at a certain level with periodic reviews where workers are paid time rates, or attendance money. As David Evans points out

REFERENCE 3
Page 66

> "Many payment systems are payments for doing a particular job with a particular perhaps individual title.".

As he rightly points out many such payment systems make no record of attendance, and "at work" might mean travelling, entertaining, speaking at conferences and other activities away from the place of work. In this part of the unit, we'll also be looking at payment systems which relate pay to attendance.

2 Time rates

Under time rates a person is paid according to the number of hours he works. The easiest way of calculating time rate is to set an hourly rate of pay and multiply this hourly rate by the number of hours worked to find a person's gross wage - that is the wage he gets before any deductions such as income tax and national insurance are made.

Here is an example.

John Smith works 38 hours in a certain week.

His hourly rate of pay is £4 for an hour.

His gross pay is 38 x 4 = 152

So his gross pay is £152.

ACTIVITY 9
Time guide
5 mins

Try the following example by filling in the blanks below.

Tom Jones works 40 hours in a certain week.

His hourly rate of pay is £3.50 for an hour.

His gross wage is the number of hours worked multiplied by the hourly rate.

That is _____ x _____ = _____

His gross pay is £140. He worked 40 hours. The rate of pay for an hour is £3.50. His gross pay is 40 x £3.50 which is £140.

More often a basic working week is agreed through the process of collective bargaining described in Part A of this unit. This means that every employee must spend a minimum number of hours at work. Perhaps 40 hours or 37½ hours might be laid down as the minimum requirement. Whether or not he actually does any work in his 37½ hours does not need to be part of the agreement. A basic wage for a standard working week is fixed, often on the basis of an agreed hourly rate.

When opportunities arise, employees can work more than the standard number of hours. Hours worked over the standard working week are called OVERTIME.

Overtime may be paid in a number of ways. Let's look at some examples.

2.1 Overtime at basic hourly rate

Overtime might be paid at the basic hourly rate. If Tom Jones in our last activity worked a standard 40 hour week and his hourly rate is still £3.50 then the basic wage would be 40 x £3.50. This is £140.

Let's assume that in one particular week he worked 42 hours - that is he worked 2 hours overtime. He would still receive his basic wage of £140. His overtime payment will be 2 x £3.50 which is £7. His gross wage now will be £140 + £7 or £147.

2.2 Overtime at higher than basic hourly rate

Overtime is often paid at higher than the basic hourly rate - at time-and-a-half or double-time for example.

So, if we assume that Tom Jones is paid overtime at double time, let's have a look at what he is earning now.

ACTIVITY 10
Time guide
2 mins

Basic pay for a 40 hour week is £140. The hourly rate of pay is £3.50. This week he has worked 45 hours. What is his gross pay this week?

* _____

_____

He receives £140 basic but he has also worked 5 hours overtime. Overtime is paid at double time - that is £3.50 x 2 = £7 and hour. So his gross weekly pay is:

£140 + (5 x 7) = £140 + 35 = £175

2.3 Overtime at an increasing rate

Overtime may be paid at a rate which increases with the number of hours worked like this:

TIME	RATE	AMOUNT
38 hour standard week	basic	£3
first hour of overtime	basic	£3
second and third hours of overtime	1.5 (time and a half)	£4.50
overtime over three hours	2 (double time)	£6

ACTIVITY 11
Time guide
3 mins

Suppose Peter Jacks is paid £3 an hour for a basic 38 hour week and this week he works a 47 hour week.

What is his basic pay? _____

How many hours overtime does he do? _____

How much does he earn in the first three hours overtime? _____

How much does he earn at double time? _____

What is his gross pay for the week? _____

His basic pay is 38 x £3 = £114. If he works 47 hours and the basic is 38 hours a week he works 9 hours overtime that week. The first hour of overtime is paid at basic rate and the next two hours are paid at time-and-a-half so in the first three hours overtime he earns:

£3 + (£4.50 x 2) = £3 + £9 = £12

If he works 9 hours overtime and we have dealt with the first 3, that means he works 6 hours at double time:

£6 x 6 = £36

So his gross pay for the week is:

£114 + £12 + £36 = £162

There are a number of variations on this system such as:

* Basic day

Instead of calculating wages around a basic week, it might be the case that overtime is paid for hours worked over a basic day. In these cases it would be possible for an employee to be absent one day, but still receive overtime payments for days when he attended work.

* Unsocial hours

Unsocial hours payments may be made to workers on shift work which boosts their earnings. It is quite possible for a supervisor on the day shift to earn less than an operator on the night shift because he does not receive an unsocial hours payment.

* Weekend working

In some cases standard rates or slightly higher rates may be paid for overtime worked between Mondays and Fridays while much higher rates are paid for weekend work.

Possible problems with time rate systems

The one thing these time rate systems have in common is that they require attendance checks such as making people clock on and off, since pay is linked to time spent at work. The records produced identify when somebody was at work, not necessarily what work was being done.

ACTIVITY 12
Time guide
2 mins

Write down one advantage of time rates to the employee.

* _____

They do not relate pay to effort and payment is guaranteed when there is no work through no fault of the employee. But you can see from this that time rates can cause problems for the employer.

ACTIVITY 13
Time guide
3 mins

Write down three possible problems which time rate systems could cause.

eg people may be paid for doing nothing if work is slack.

* _____

* _____

* _____

* People may resent the checking on attendance which the system demands and may also be resentful if some sections have better overtime opportunities than others.

* People have no incentive to get the work done quickly if by taking it easy they can be paid to finish at overtime rates.

* Higher rates or payments for unsocial hours can often lead to differences between sections doing the same work because they do it at different times.

* People paid by results on bonus schemes or piece-work schemes can often earn more than people in similar jobs paid on time rates and often work shorter hours. If these two payment systems exist in the same plant, then resentment can build up between the two groups.

Now let's have a look at Flexitime.

3 Flexitime

Flexitime is a comparatively new development. It is still based on a standard number of working hours, but usually the standard is based on the number of hours worked in a 4 week period. There are a number of different systems used to suit the needs of particular firms and the people who work for them.

Here is how one flexitime system works.

* An employee has to work 150 hours in every four week period.
* However, he may start and finish work when he likes within certain limits.
* There is a period of the day, say from 11 am until 3 pm when all employees at work on that day must be at work. This period is often called the CORE TIME.
* If an employees decides to start early and finish late, he can put in his 150 hours of work in less than 20 working days of his four week period. If he does this he can take extra time off.
* Most schemes set a limit to the amount of time off that can be taken during each period, perhaps a day and a half, or two days.
* He has to take a minimum break of one hour each day which cannot be counted towards his total of hours worked.

ACTIVITY 14
Time guide
2 mins

Megan Hughes works flexitime.

The core time is 11 am - 3 pm each day.

In this time she has to take 1 hour's break which cannot be counted towards her total hours.

The standard number of hours of 150 in a four week period. She can take a maximum of two days off as a result of working flexitime in a four week period. (Of course, this doesn't include normal holiday entitlement.)

During each of the five days of the first week, she works from 9 am - 4 pm each day.

How many hours will she be credited with for the first week?

* _____

_____

She'll be credited with 5 x 6 = 30 hours.

Although she is actually at work for 7 hours each day, she has to take 1 hour's break each day which she can't count towards her total.

ACTIVITY 15
Time guide
4 mins

During the second week she works from 8 am - 5 pm each day.

During the third week she works from 8 am - 6 pm each day.

How many hours will she have credited to her in total by the end of the third week?

* _____

* _____

During the second week she will work 40 hours.

During the third week she will work 45 hours.

(Don't forget to deduct the compulsory 1 hour's break each day from the total number of hours she's at work.)

So the total number of hours with which she will be credited by the end of the third week will be:

Week 1 - 30
Week 2 - 40
Week 3 - 45

Total 115 hours

ACTIVITY 16
Time guide
5 mins

Suppose Megan wants to take a day off during the fourth week.

How many hours must she work in total in the remaining 4 days to allow her to do this?

* _____

ACTIVITY 17
Time guide
4 mins

On the weekly chart below, fill in one of the ways Megan could work the hours she needs in the fourth week to make up her total of 150 hours.

Week 4	Start time	Break 1 hr	Finish Time	Daily total
Mon		////////		
Tues		////////		
Wed		////////		
Thurs		////////		
Fri	H O L I D A Y	////////		
Weekly Total				

You could do this in a number of ways. Since she has worked between 8 am - 6 pm in the previous three weeks, I have kept to those hours but your suggestion may well be different from mine. That doesn't matter as long as the total of hours is 35 which she needs to bring her up to 150 for the four week period.

Week 4	Start time	Break 1 hr	Finish Time	Daily total
Mon	8.00 am	////////	5.00 pm	8
Tues	8.00 am	////////	6.00 pm	9
Wed	8.00 am	////////	6.00 pm	9
Thurs	8.00 am	////////	6.00 pm	9
Fri	H O L I D A Y			
Weekly Total				35

In practice most schemes have the following added refinements:

* A day which is taken as sick leave will count as a "standard day". In the example we've been looking at the required number of hours in 4 weeks was 150. This would work out to a 37½ standard week since 150 divided by four is 37½. If we divide 37½ by 5 we get 7.5 so in this case an absentee would be credited with 7½ hours, or the standard day.

* There are minimum starting and maximum finishing times. So an employee might not be allowed any time before, say, 7 am or after, say, 6.30 pm.

* Carry overs and underworked periods are allowed within certain limits. If Megan had worked say 154 hours, she might be allowed to begin her next four week period with 4 hours in hand. On the other hand, had she only worked 146 hours, she might be allowed to make this up in the next period.

Possible problems with flexitime

Since flexitime requires attendance checks, it has all the disadvantages of time rate systems but many organisations find that the advantages to the employees and the organisation outweigh the disadvantages.

ACTIVITY 18
Time guide
4 mins

Jot down two examples of what you think the advantages of the flexitime system could be to the business or to people who work a flexitime system.

* _____

_____

* _____

_____

Lateness, which can be a problem in time rate systems, is no longer a problem with flexitime. Some employees may stay late to finish jobs begun before leaving because this time counts towards their hours. If this leads to a smoother work-flow, then this is an advantage. People can cope more easily with things like medical appointments, taking children to school and other domestic problems without it affecting the time they give to their company.

On the other hand, the workflow can be hindered if people choose to attend when work is slack and are absent when there is plenty of work on. This would obviously lead to an inefficient use of manpower.

4 Fixed Wages

Many people in all sorts of jobs - senior executives and administration personnel for example - start their jobs at an agreed fixed annual salary.

Although the nature of their jobs may vary, they usually have two factors in common.

Let's take these examples.

ACTIVITY 19
Time guide
4 mins

A regional sales manager works from home one or two days a week. The other days he is travelling and seeing customers. His work sometimes involves dealing with clients in the evening, usually over dinner and, as his region is very large, he sometimes has to spend long hours driving. He keeps his golf clubs in the boot and occasionally takes a few hours off for a round of golf during the week. His salary is £14,500.

A trainee personnel manager works regular hours in the factory except when he has to travel to Head Office for meetings or training courses. Sometimes he is involved in arranging conferences at weekends, his boss usually tells him uniformally to take a few hours off the following week as and when he can. His salary is £8,000.

Write down two factors which these jobs have in common.

* _____

* _____

You may have noticed various similarities but what I am particularly concerned with is that:

* no payments are made for overtime

* no records of attendance are needed to operate the system

In the examples we looked at, the jobs may include a wide variety of activities including entertaining clients and travelling so it isn't always necessary to be on the employer's premises to be working and the hours can be varied and unpredictable.

Some people who are on a fixed annual salary have no particular arrangements for increasing their wages. Obviously, they will be reviewed and increased from time to time but not necessarily at regular intervals.

ACTIVITY 20
Time guide
3 mins

These people all work in an accounts office and are paid fixed annual salaries. Using the details about them as a guide write down three factors which seem to affect the levels of pay each of them receives.

Henry has worked in the office for twenty years. He is paid more than Mary who has been there for four years.

Mary is paid more than Robert because, although Robert is older than Mary, she transferred to this office from another company where she had held a very responsible position.

Susan is paid least. When she started work fourteen months earlier she was told her salary would be reviewed in a year. When this didn't happen she approached one of the partners about it and has been promised a rise next month.

* _____

* _____

* _____

The factors whch are likely to affect a fixed annual salary and to be the basis for increases in salary are:

* length of service

* experience of the job

* as a last resort, asking directly for an increase which you feel to be overdue.

A small number of people, including judges and members of parliament have their wages fixed by an Act of Parliament and it's quite common nowadays for people to have a job for a fixed, limited period for which the wages are negotiated at the beginning of the period of employment.

However, many people's salaries are not arrived at in the random way that the last activity suggests.

They may start a job on a fixed wage where there is a system of regular, usually yearly, reviews. Increases in pay are made each year and normally include two elements:

- an allowance for the rising cost of living
- an allowance or award for good work performance during the previous year.

  In other words a MERIT award.

In order to make an award for merit, the organisation must have some way of assessing progress, performance and results achieved by the employee. This is one of the many functions of PERFORMANCE APPRAISAL which can be defined as:

> the process used to review and assess the progress, performance and results achieved by an individual.

EXTENSION 2
Page 65

If you'd like to know more about performance appraisal you might like to take up this extension.

Possible problems with fixed pay systems

So far we've agreed as a general rule that fixed pay systems do not take overtime into account and do not require attendance records to be kept. This in itself can create problems for the organisation and the employees paid this way.

ACTIVITY 21
Time guide
4 mins

Write down two possible problems which could arise with a fixed pay system.

* _____

* _____

* People may resent having to work unpaid overtime, particularly if other people in the organisation are being paid overtime.

* People are sure they will be paid and do not necessarily have to work hard to justify their pay.

* Working hard, putting in extra hours and showing enthusiasm may or may not result in promotion or merit payments, depending on the appraisal system which operates and the opportunities the organisation can offer.

If effort isn't rewarded by promotion or merit rises, then people are likely to lose their enthusiasm.

5 Incremental Payment Systems

This type of payment system is common in the public sector and is also used very often for junior clerical staff. The first thing that needs to be done if an incremental system is used is to grade jobs.

Let's take a very simple example.

ACTIVITY 22
Time guide
1 min

In an office there are three grades of staff - supervisors, managers and clerks.

List the grades in order of seniority.

Most senior * _____

Least senior * _____

The most senior grade is manager, least senior clerks with supervisors in the middle.

Each of these jobs has a series of points called

INCREMENT POINTS

which match a particular pay level.

Here is a diagram showing the incremental scales for the grades of employee we're dealing with.

CLERKS

Incremental Point	Yearly Pay £s
0	3000
1	3360
2	3720
3	4080
4	4440
5	4800
6	5160
7	5520
8	5880
9	6240
10	6600
11	6960
12	7320

SUPERVISORS

Incremental Point	Yearly Pay £s
0	5160
1	5520
2	5880
3	6240
4	6600
5	6960
6	7320
7	7680
8	8040
9	8400
10	8760
11	9120

OFFICE MANAGERS

Incremental Point	Yearly Pay £s
0	7320
1	7680
2	8040
3	8400
4	8760
5	9120
6	9480
7	9840
8	10200
9	10560
10	10920

Each grade of job has an increment point which equates with a particular yearly pay.

ACTIVITY 23
Time guide
3 mins

Using the diagram we have just drawn identify the annual or yearly pay for the people listed below. Write your answer in the space below

Employee	Yearly pay in £s
Clerk on point 0	_____
Supervisor on point 1	_____
Office manager on point 2	_____
Clerk on point 10	_____
Supervisor on point 4	_____
Supervisor on point 9	_____
Office manager on point 3	_____

A clerk on point 0 earns	£3000
A supervisor on point 1 earns	£5520
An office manager on point 2 earns	£8040
A clerk on point 10 earns	£6600
A supervisor on point 9 earns	£6600
An office manager on point 3 earns	£8400

You notice that the maximum a clerk can earn without being promoted to supervisor is £7320 and the maximum a supervisor can earn without further promotion of £9120.

This maximum point on the scale is called

THE BAR

and when that is reached, you do not receive any further annual increments unless you are promoted to a more senior position.

ACTIVITY 24
Time guide
1 min

Using the same diagram of incremental scales work out:

What is the bar on the office managers' scale?

*

An office manager is appointed at the bottom of the scale. One supervisor earns £1080 a year more than the new office manager. At what point on the supervisors' scale is the supervisor in question?

*

The bar on the office manager's scale is £10,920. If the new office manager is at the bottom of the scale, he earns £7320. So the supervisor must be earning.

£7329 + £1080 = £8400

£8400 is point 9 on the supervisors' scale.

We can see from the last activity that it is possible for a clerk towards the top of the scale to earn the same or more than a supervisor and for a supervisor towards the top of the scale to earn more than an office manager.

ACTIVITY 25
Time guide
3 mins

Write down one reason why this overlap may be useful to the organisation.

*

If scales overlap it makes it simple to transfer people to a higher grade if they are promoted.

So a straightforward promotion from clerk to supervisor could be made by transferring the clerk from say, increment point 6 on the clerks scale to increment point 0 on the supervisors' scale.

Often in practice some element of merit award might be made at this stage in the form of extra increment. In our example the increments are the same for each grade - that is £360 per year or £30 per month. Often the sizes of the increments will differ on different grade jobs. Sometimes the size of the increments will vary even within a grade. Some schemes give smaller increments at the beginning of the scale than they do at the end. Sometimes more complicated rules exist for transfers or promotion.

Possible problems with incremental pay systems

ACTIVITY 26
Time guide
5 mins

You may already have thought that there are some disadvantages to an incremental pay system. Jot down what you see as two possible problems for an organisation which operates an incremental pay system or for the people who are paid that way.

* _____

* _____

There are a number of points we could make about incremental payment systems.

* Once a person reaches the bar of his scale, his motivation to put more effort into his work is likely to be reduced unless he sees any possibility of promotion. Where there is no chance of promotion, motivating such a person can be difficult.

* All employees on a particular point in the same grade will be paid the same, even though the jobs they do and how they will do them may be different. The only reward for good effort is merit increments when a person is promoted, and even then, some systems lay down very firm rules about how to calculate new pay on promotion, so merit awards are not always possible.

* Often movement up the incremental scale is so automatic that poor employees will receive an increment as well as good employees. So, two people may be on the same incremental point. One may put a good deal of effort into his work while another puts in very little. Yet, when the time comes both will receive the same incremental rise.

* Resentment can arise when people see others on higher increments doing less work. The system can lead people to feel that they are not being paid fairly.

SELF CHECK 3
Time guide
10 mins

a) In another factory the employees are paid a basic wage of £152 based on an hourly rate of £4 an hour for a standard 38 hour week. One employee works 40 hours, and overtime is paid at double-time. Calculate his gross earnings.

* _____

Complete the blanks in the following statments with a suitable word or words.

b) If you work flexitime, the period in the middle of the day when you must attend is called _____ _____ .

c) The system allows people _____ over starting and finishing times.

d) If somebody is off sick for a day he will be allowed a number of hours called _____ _____ .

e) Two factors which fixed wage systems have in common are:

* _____

* _____

The answers to this self check are here in the following words so you will need to check your answers carefully. a) Gross pay is £168 which is £152 at basic and 2 hours at overtime rate which is £16 as overtime is double the basic hourly rate. b) Core time is the period in the middle of the day when you must attend. c) Flexitime allows people flexibility or choice over starting and finishing times. d) If somebody is off sick for a day, he is allowed a standard day so if, say, he has to work 150 hours in four weeks, a standard day will be 150/20 which is 7½. e) The two factors which fixed wage payment systems have in common is that normally overtime isn't paid and you don't have to keep records of attendance to operate the system.

6 Summary

* TIME RATE

Gross wage = hourly rate x number of hours worked.

This can be boosted by overtime paid at

- standard rate
- higher than standard rate
- varying rates depending on the overtime worked

* FLEXITIME

Flexitime systems allow people to choose starting and finishing times within certain limits.

Common elements of flexitime systems include

- core times when employees must be at work
- a built-in element of time for breaks
- earliest or minimum starting times
- latest or maximum finishing times
- a standard number of hours to be worked in the period based on 4 x the standard working week for four week periods
- a standard day calculated on the basis of the standard hours in a week. This is allowed towards the required monthly hours if a person is absent
- some schemes allow hours to be carried over to the next period, or allow people to make up hours in the next period within certain limits.

* FIXED WAGE PAYMENTS

These include:

- fixed wage fixed term contracts
- fixed wages without a built-in review procedure usually annual and linked to PERFORMANCE APPRAISAL.

* INCREMENTAL SYSTEMS

These systems involve grading jobs and giving each grade a set of

- INCREMENTAL POINTS. These are points on a scale which equate with a particular salary which people move up

- THE BAR is the last point on a salary scale and scales for grades of jobs often overlap. This makes it easier for transfers to be made.

PART C MAIN PAYMENT SYSTEMS LINKING PAY TO RESULTS

1 Introduction

In this part of the unit we'll look at payment systems which link pay to results of one kind or another. Many people have an element in their pay which is linked to output, productivity, profit and sales made, to give some examples. There are several payments systems of this kind - we'll look at some common systems and the differences between them.

ACTIVITY 27
Time guide
3 mins

Jot down three examples of ways in which pay can be linked to results.

(You may or may not have experience of being paid this way but even if you haven't you'll find some clues in the introduction to this part of the unit which should get you started.)

* _____

* _____

* _____

Payment linked to results can be called a number of things and can be worked out in a number of different ways.

Your examples may have included piece-work, commission and several kinds of bonus schemes. Individuals, groups and whole plants in manufacturing companies can receive a bonus which is linked to output.

Let's start by looking at piece-work payments.

2 Piece-work and Commission

In its pure form, a person on piece-work would be paid an agreed sum for each item he completes in a week. In the past, miners were paid on pure piece-work, each mining team being paid a fixed sum for every ton of coal they mined.

Here's an example.

A garment factory pays machinists

50p per zip in a pair of jeans
40p per zip in a skirt

In one week Marjorie completes

120 zips in jeans
105 zips in skirts

So her gross pay for the week would be

(120 x 50p) + (105 x 40p) = £60 + £42 = £102

ACTIVITY 28
Time guide
4 mins

Suppose the rate for putting zips in dresses in the same factory is 45p per zip.

Work out the gross pay for the week for Hazel who completes:

100 pairs of jeans at 50p
145 skirts at 40p
10 dresses at 45p

*

Hazel's gross pay would be:

(100 x 50p) + (145 x 40p) + (10 x 45) =
£50 + £58 + £4.50 = £112.50

People who work in manufacturing produce goods. Sales people produce sales. Where piece-work payments are related to the number of items made, commission is related to the value of sales. The sales may be sales of goods or services. A furniture sales assistant can receive a percentage or proportion of the value of furniture sales. People who sell insurance, which is a service, may receive a percentage or proportion of the value of insurance they sell.

Now, so far we have assumed that piece-work makes the whole wage for the people in our examples. More often piece-work payments or commission make up only a part of a wage.

A sales assistant is more likely to receive a basic wage plus commission than commission only.

A machine operator is more likely to receive a basic wage plus a piece-work payment rather than piece-work payments only. In these cases, the piece-work payment is commonly called a bonus.

Before we look at how these systems operate, let's do the following self check.

SELF CHECK 4
Time guide
3 mins

Decide whether the following statements are TRUE or FALSE.

a) Under pure piece-work systems a person is paid the piece-work rate multiplied by the number of items produced.

TRUE/FALSE

b) Under pure commission systems a person is paid an agreed amount multiplied by the number of items sold.

TRUE/FALSE

c) A window cleaner who receives an agreed amount for each window cleaned is on a piece-work system.

TRUE/FALSE

d) Commission is more easily paid on sales of goods than services.

TRUE/FALSE

The answer to this self check is here in the following words, so you'll need to check out your answers carefully. The answer to question a) is true. This was how we defined piece-work at the beginning of the section, that is as a system in which a person is paid a sum for each completed item. The answer to question b) is false. Commission is very like piece-work in that people in manufacturing produce goods, and sales people produce sales, but commission is related to the amount of sales, not the number of items sold. The answer to question c) is true. This is an example of a pure piece-work system. The answer to question d) is false.

3 Basic pay plus bonus

Most systems give people a minimum basic wage plus a payment related to how much work they do.

This part of the payment can be based on two things:

* a piece-work rate for output above an agreed minimum

or

* the amount of time saved on an agreed standard time for doing a particular task.

The additional payment received is usually called a bonus and most, though not all, bonus systems share the savings made by a fast operator between the operator and the company.

3.1 Piece work bonus

There are three ways of calculating a piece-work bonus scheme. Whichever scheme you operate you must first decide what you expect the standard output to be and what wage rate you will pay. By that we mean the output which you expect a trained, reasonably competent operator will achieve with reasonable effort.

ACTIVITY 29
Time guide
1 min

So, if you think an average operator can produce 100 items in a week and you will pay on the basis of 75p per item, the basic pay will be _____.

The basic pay will be £75.

One bonus system you can use is to pay the same rate for each item produced above the standard output as you used to calculate the basic wage.

So, using the same example:

If the basic pay is £75 based on a standard output of 100 items a week, you will pay 75p for each item produced over 100.

ACTIVITY 30
Time guide
5 mins

How much will each of these people receive?

Helen produces 108 items * _____

Frank produces 100 items * _____

Les produces 98 items * _____

Helen will receive £75 basic + (8 x 75p) = £75 + £6 = £81. Frank will receive £75 - he has produced the standard output. Les will receive £75 - although he hasn't produced the standard output, you will pay £75 basic. The bonus scheme only comes into operation once output has passed the standard of 100 items per week.

Alternatively you can pay at a higher rate for items produced above the standard output than you do for output up to the standard level.

In the example we've used so far, the basic rate has been 75p per item. Suppose we decide to pay 90p per item for output above the standard level.

We will still pay £75 basic assuming a standard output of 100 items a week but 90p per item for anything over 100.

ACTIVITY 31
Time guide
3 mins

So, if Helen produces 108 items a week, how much would she earn under our progressive bonus system?

* _____

She would earn £75 + (8 x 90p) = £75 + £7.20 = £82.20

Sometimes with this kind of bonus system the rate goes up the more you produce.

So our bonus rates could look like this:

OUTPUT LEVEL	RATE
100 items - standard	75p
(bonus comes into operation)	
101 - 120	90p
121 - 140	110p
141 - 160	140p

ACTIVITY 32
Time guide
2 mins

Let's suppose Jim is paid on this progressive bonus scheme and he produces 124 items in a week.

What is his basic pay? _____

How much will he earn at 90p per item? _____

How much will he earn at 110p per item? _____

So what is his gross pay for the week? _____

* His basic pay is	£75
* Bonus is paid at 90p per item for an output between 101 and 120 items so he'll earn 20 x 90p	£18
* He has produced 124 items so he'll also earn 4 x 110p	£4.40
* His gross wage will be	£97.40

It's more common, though, to pay bonus rates at a lower rate than that which you pay for standard output. A bonus scheme using this system could look like this:

OUTPUT LEVEL	RATE
100 items - standard	75p
(bonus comes into operation)	
101 - 120	60p
121 - 150	45p
151 - 180	30p

So that somebody producing 160 items a week would earn

100 (basic)	£75
20 at 60p per item	£12
30 at 45p per item	£13.50
10 at 30p per item	£ 3
	£103.50

Now let's turn to bonus payment schemes based on how much time you save.

3.2 Systems based on standard time

Payment systems related to results, which aren't based on how much is produced, are based on how much time you can save over the standard agreed time for the job.

The success of systems based on standard times depends on three things:

* Finding the best way of doing a particular job and working out a reasonable time for completing it.

* Deciding an agreed hourly rate based on the standard time.

* Selecting an acceptable method for working out bonus payments for the time saved on the standard time.

All these systems are designed to share the savings between the operator and the company, but this can be done in one of several ways.

Let's look at an example.

ACTIVITY 33
Time guide
1 min

Duncan Parr takes 5 hours to complete a ring main installation in a small house, for which the standard time is 8 hours.

How many hours has he saved on the standard time?

*

He has saved 3 hours. His bonus will be calculated by giving him a certain share of the hourly rate for each hour that he has saved. We'll say that his hourly rate is £3.00 and under the bonus scheme he is paid, he receives a half share of the hourly rate for every hour he saves.

So for this job he will be paid

5 x £3.00 (5 hours at hourly rate) + 3 x $\frac{£3.00}{2}$ (3 hours at bonus rate)

= £15 + £4.50 = £19.50

ACTIVITY 34
Time guide
5 mins

How much would he be paid for a job for which the standard time was 10 hours but which he completed in 9.

Use the same hourly rate - £3 and the same bonus calculation system - half the hourly rate for every hour saved over standard time.

*

He would be paid

$$(9 \times £3) + (1 \times \frac{£3.00}{2}) = £27 + £1.50 = £28.50$$

In the examples we've just looked at, the bonus payment rate was half the hourly rate for each hour saved over standard time.

Other bonus payment schemes can be calculated the same way but the share of the hourly rate paid as a bonus may vary from one third to three quarters.

SELF CHECK 5
Time guide
10 mins

Here are two bonus calculation tables for different jobs, calculated at different bonus rates.

Complete the tables to work out what the total pay would be for each job.

Standard Time	Hourly Rate	Time Taken To complete	Time Saved	Standard Pay	Bonus Paid	Total Pay
					⅓ time saved x hourly rate	
8 hours	£1.50	6 hours				

Standard Time	Hourly Rate	Time Taken To complete	Time Saved	Standard Pay	Bonus Paid	Total Pay
					¼ time saved x hourly rate	
4 hours	£4.00	3 hours				

The answers to this self check are here in the following words, so you'll need to check out your answers carefully. In table a) the time saved on the job is 2 hours. Standard pay would be 6 x £1.50 or £9 and the bonus would be (2 x £1.50) divided by 3 or £1. So the total pay for the job would be £10.

In table b) the time saved on the job is 1 hour. Standard pay would be £12 and the bonus £3 so the total pay is £15.

A different system of calculating a bonus can be used if people are only likely to be able to achieve small savings in time. This time the bonus is worked out by dividing the time taken by the standard time then multiplying it by the time saved and then by the hourly rate.

Here's an example.

Standard Time	Hourly Rate	Time Taken To complete	Time Saved	Standard Pay	Bonus Paid	Total Pay
					$\frac{11}{12} \times 1 \times 2$	
12 hours	£2	11 hours	1	£22	£1.83	£23.83

ACTIVITY 35
Time guide
2 mins

Would you say this seems/does not seem a generous bonus payment rate?

* _____

It is a generous bonus payment rate which is why it is used where people are only likely to achieve small time savings and it usually also limits increased earnings to double.

4 Other common systems linked to results

A number of other payment systems linking results to pay operate at either group or plant-wide levels. There are systems designed to provide supervisors with a bonus based on how well their work teams do and systems which measure performance on a daily basis. We'll take a look at some of these in this section.

We'll begin by looking at bonus payments to people who are not actively concerned with producing anything.

ACTIVITY 36
Time guide
5 mins

Suppose that in your work place, only production operators are paid by results. Nobody else, including supervisors, managers, office and sales staff is.

Jot down two problems which could arise from this situation.

e.g There could be ill-feeling amongst staff who have no way of boosting their earnings.

* _____

* _____

There are several problems which can arise

* A typical response from supervisors might be that sometimes the members of their workteams can earn a better take-home pay than they do.

* For other managers there may be little incentive to work harder.

* The ability of some groups to boost their earnings more than others can lead to an EROSION OF DIFFERENTIALS. That is, the relative pays of various groups of workers can be upset.

4.1 Group Bonus Schemes

Some companies avoid this problem by paying a group bonus which may involve separate workteams or everybody in the workplace.

If it works well a group bonus scheme encourages cooperation because all members depend on one another for bonus levels to be achieved.

But look at this situation.

ACTIVITY 37
Time guide
3 mins

A workteam of twelve people are on a group productivity bonus scheme, as are the other workteams in the same company.

One of the workteam is frequently off sick and when he is away, the output of the team falls and so does their bonus. After a while he is replaced by a new starter but it takes him some time to operate as quickly as the group would like so output is still below what it once was.

Meanwhile, the workteam see other people in the firm who do similar jobs earning considerably larger bonus payments than they can, despite their efforts.

Jot down two problems which might arise from the group bonus scheme operating here.

* _____

* _____

* People are likely to feel resentful if their bonus is affected by things outside their control such as somebody being absent or somebody working slowly because of inexperience.

* Tensions may arise between different groups if they don't get the same bonus opportunities.

You can include an element in the scheme to overcome problems such as this and, despite the difficulties, it is a good system when

* teamwork is a necessary part of the job

* it is hard to measure the performance of one individual

4.2 Measured day work

Under this system people receive a fixed daily pay rate for an agreed level of output. Many of these systems have payment bands which depend on certain levels of output.

In a typical system, an operator will agree to produce an output which relates to a particular payment band. If the operator is frequently able to produce more, then he may move to a higher payment band. If on the other hand the operator is often not able to meet the output level agreed, then unless improvements can be made, the operator may be required to work on a different payment band for a lower output. It may be that there are special reasons why an operator can't meet an agreed level for a time. It's up to the supervisor to try and help solve the problem if this is the case.

ACTIVITY 38
Time guide
2 mins

What do you think is the purpose of these payment bands?

* _____

_____

The purpose is to encourage people to produce more and then to reach a higher pay band. But it doesn't always work.

_____

ACTIVITY 39
Time guide
3 mins

Suppose one member of your workteam just manages regularly to make one payment band but is very unlikely to reach the next. How is this likely to affect his performance.

* _____

* _____

_____

He is not likely to feel encouraged to work harder than he does at present if it won't result in higher payment. Similarly once he reaches a certain payment band, he may slow down for the rest of the day or stop altogether, which can make the supervisor's job more difficult than usual.

4.3 Productivity Bargaining

Another system which has been given a great deal of attention in recent years is productivity bargainning.

In this sense, 'productivity' can mean two things:

* producing greater output, but without increasing costs as output rises

* producing the same output at lower costs, perhaps with less scrap or better quality.

So the starting point for a productivity agreement is a discussion between management and union representatives about proposals to improve working methods within the company. This might cover:

getting better control over overtime worked

using staff more flexibly

revising the wage structures.

In exchange for lower cost and possibly higher quality output, a better package of payment and other benefits is offered to employees.

4.4 Profit Sharing

Finally, let's look at another common practice - profit sharing. There are various types of scheme in operation. Many involve annual payments and people have to be with the firm for a year or two before qualifying. In most, the profit share varies from one year to another.

ACTIVITY 40
Time guide
3 mins

Suppose you work for a firm which has a profit sharing scheme.

This is paid annually just before Christmas and there is a two year qualifying period. Each year the firm says what will be the percentage of the profits to be paid as a bonus and it varies from year to year. Some years you've received £1200 some as little as £400 before tax.

Three members of your workteam have been with the firm for less than two years.

How much do you think the company's profit sharing scheme will encourage your workteam to work harder? Jot down two reasons for your decision.

* _____

* _____

The profit sharing scheme might not have much incentive value because

* some of your workteam don't qualify anyway

* as payment is made once a year it doesn't have much effect on day-to-day effort

* as payments are often variable there may be no obvious direct link between extra effort and payment in the mind of the person who received it

* people may feel that the bonus payments vary because of things which are unrelated to effort and outside their control

Despite these comments, profit sharing schemes are normally designed so that all employees may benefit. The aims may include things like

- to encourage employees to stay with the company

- attempting to get employees to identify with the company

- to encourage cooperative effort

- to improve confidence in management by joining the interests of the company and the employee

So, while profit-sharing is in a sense a form of payment by results, by overall company results, the aims of profit-sharing schemes may not be as clear cut as some of the other payment systems we looked at earlier.

SELF CHECK 6
Time guide
10 mins

Decide whether the following statements are TRUE or FALSE.

a) Under pure piece-work systems a person is paid the piece-rate multiplied by the number of items produced.

TRUE/FALSE

b) Under pure commission systems a person is paid an agreed amount multiplied by the number of items sold.

TRUE/FALSE

c) A window cleaner who receives an agreed amount for each window cleaned is on a piece-work system.

TRUE/FALSE

d) Commission is more easily paid on sales of goods than services.

TRUE/FALSE

Complete the following statements with a suitable word or words.

e) Bonus payments can be related to _____ or _____ _____.

f) In a bonus system based on standard time, the value of the time saved over standard time is _____ _____ the firm and the person doing the job.

g) A _____ _____ scheme may be used where it is difficult to measure one person's effort.

h) An increase in productivity means producing _____ _____ at lower cost or higher output at _____ _____ _____.

The answer to this self check is here in the following words, so you'll need to check out your answers carefully. Statement a) is true and b) is false. Commission is very like piece-work in that people in manufacturing produce goods and sales people produce sales, but the commission is related to the value of sales, not the number of items sold. Statement c) is an example of a pure piece-work system and is therefore true. d) is false - it's just as easy to pay commission on a service such as the sale of insurance as it is on the goods sold such as washing machines. e) Bonus payments can be related to output or to time saved over a certain standard. f) Standard time bonus systems share the value of the time saved between the firm and the person doing the job. g) a group bonus scheme may be used where you can't easily measureone person's effort and where team work is important. h) To increase productivity, you need to produce the same output at lower cost or higher output at the same cost.

5 Summary

Payment systems which link payment to results are:

* Piecework - payment at an agreed rate for each piece of work completed.

* Commission - payment as a percentage of the value of sales made.

* Basic pay + piecework payment - a basic wage is paid for a standard output plus an extra payment for additional work completed. The bonus payment may be at the same rate, a lower rate or a higher rate than the basic.

* Standard time systems - based on standard agreed times for jobs. Bonus is earned for time saved. The savings are shared between the operator and the company.

* Groups bonus schemes - bonus payments are based on group rather than individual effort.

* Measured day work - a high rate of basic pay is set in return for a standard daily output.

* Productivity bargaining - higher pay in return for more cost-effective production.

* Profit sharing - a system linked to company performance.

PART D FAIR PAY?

1 Introduction

So far we have looked at payment systems which link pay to results and payment systems which don't. But many of us may still be paid in ways which are not completely covered so far. In this part of the unit we'll be looking at fringe benefits which, although they don't appear on your pay slip, improve your standard of living to some extent.

These tend to be difficult to pin down (and to tax!) and raise frequent criticism about whether they are fair.

What is fair is a very complex issue and we'll look briefly at the role of job evaluation in determining scientifically what is a fair rate for the job.

2 Fringe benefits

Many companies offer "perks" or fringe benefits of one kind or another to their employees.

ACTIVITY 41
Time guide
3 mins

Write down two examples of perks or fringe benefits which your employer provides or with which you are familiar.

* _____

* _____

The list could be almost endless. Probably things like

* company cars

* subsidised canteen

* luncheon vouchers

* subsidised or free medical insurance

come to mind quite readily but there are also a number of fringe benefits related to particular industries for example:

* railway employees get cheap rail travel

* bank and building society employees get cheap loans and mortgages

* shop employees can buy goods at 'staff discounts'

And many of us may benefit from things which we would possibly not recognise as perks at all, for example

* a contributory or non-contributory pension scheme

* holidays about the minimum requirements

* longer periods of notice than the legal minimum

* paid sick leave

The most common sources of criticism about perks and fringe benefits are firstly from the unions, concerned with maintaining pay differentials and secondly governments who can't always find a way to tax them.

And probably at some time we have all wondered whether a perk that somebody else was getting was really 'fair'. So what do we mean by fair pay?

3 Fair Pay

We've looked at a number of ways in which people are paid for working. The problem we'll now consider is:

do the wage payment systems we've looked at give people a fair pay?

Not very many people seem to be able to explain exactly what they mean by fair pay but everyone has some idea of what they expect. How employees react to feelings of unfairness can cause problems for a supervisor.

ACTIVITY 42
Time guide
5 mins

Spend a few minutes thinking about how your workteam would react if they felt they were unfairly paid.

Write down three likely reactions.

eg Less cooperation

* _____

* _____

* _____

People can react in a number of ways. Often, feelings of unfairness will affect motivation, which can lead to increased absenteeism, latenesss, people leaving if they can find work elsewhere, reduced morale and more conflict in work relationships. They may ask for pay increases or file grievances of one kind or another either individually or collectively. Because many payment systems can lead some groups to feel they are being unfairly treated, pay is not always a motivator. That is, payment systems do not always encourage people to do the things we want them to do.

REFERENCE 4
Page 66

Video 7 in the BBC supervisory studies series gives a clear example of how a team of street sweepers can be de-motivated by the way in which they are paid.

This brings us to the problem of how a supervisor can carry out his function of achieving things through other people when payment systems don't provide the right levels of incentive or are thought of as unfair. This problem of motivation is outside the scope of this unit. However you could explore this problem further by taking up these extensions: the first is a short video exploring how to motivate a workteam when payment systems don't provide the right incentives and the second is an extension to another unit in this series which looks in more detail at the question of motivation.

EXTENSIONS
3 and 6
page 65

So, to return to the queston of fair pay, how do we assess fairness?

ACTIVITY 43
Time guide
5 mins

1 Here is a list of jobs. Decide which of the 4 people you feel should be paid the most by putting a tick beside it.

a) Production manager
b) Coal face worker
c) Doctor
d) Machine operator working night shift

2 Here is the same list again. Decide which of the 4 people you feel should be paid the least by putting a tick beside the job.

a) Production manager
b) Coal face worker
c) Doctor
d) Machine operator working night shift

Whichever jobs you ticked in questions 1 and 2 of this activity, you will have some basis for making your decision. Decisions like these are often subjective - that is they depend on the way a person thinks or feels about jobs, environments and other related factors. What you'll have done in ticking the jobs you did is to have made a decision about the worth of one job as opposed to another. Often such judgements are related to things like:

- clean jobs are safer and better than dirty ones

- dangerous jobs deserve some element of risk payment

- jobs demanding high levels of responsibility should be better paid than those that don't

- jobs demanding paper qualifications should be more highly paid than those that don't

- people should be paid for their skills

The list could be endless. The point is that such reasons are personal judgements or opinions.

ACTIVITY 44
Time guide
5 mins

Now that we have looked at some of the personal reasons why people rate some jobs higher than others, perhaps you'd like to spend a few minutes writing down the reasons why you ticked the jobs you did in the previous activity.

1 I thought the _____ should be paid the most because

_____

_____

_____

2 I thought the _____ should be paid the least because

_____

_____

_____

Not everyone's personal reasons for valuing one job higher than another will be the same. If their personal views clash with the way in which they see the payment system operating, then they will feel the payment system is unfair. We can add to this the fact that workers can earn different levels of pay for historical or economic reasons. Most people would like to feel that what they receive in their pay packets is related to the value of what they give to their companies in return. How they assess this value might be personal. If someone looks around and sees someone else who is being paid more, he will feel unfairly treated if the value of that person's job is seen to be no greater or even less than his own.

Now let's look at a formal approach to valuing jobs in money terms.

4 The Role of Job Evaluation

Job evaluation places a money value on a job in an organisation. It uses techniques designed to evaluate jobs systematically in an effort to make judgements about the worth of a job less subjective. That is, to cut out personal opinion in as far as possible. To be successful:

- it must be possible to distinguish different jobs from each other
- there must be enough differences between jobs and what they involve to be able to compare them properly.

A first step in job evaluation is therefore JOB ANALYSIS which may be defined as

THE PROCESS OF EXAMINING JOBS TO
UNCOVER EXACTLY WHAT THEY INVOLVE

SELF CHECK 7
Time guide
5 mins

Let's review our ideas on fair pay and job evaluation so far by doing a self check. Fill in the blanks in the following sentences with the most suitable word or words from the text.

a) Not everyone will use the same basis for valuing jobs. In an effort to cut out personal opinions and evaluate jobs more systematically _____ _____ may be used.

b) A first step in job evaluation is to examine each job to see what it involves. This process is called _____ _____.

c) If job evaluation is to be used it must be possible to distinguish between different jobs and there must be enough _____ between them to be able to compare them properly.

The answer to this self check is here in the following words, so you'll need to check out your answers carefully. a) Job Evaluation - In section 3 of this part, we looked at how difficult it can be to assess fair pay because different people may value jobs in different ways. In an effort to cut out personal opinion in valuing jobs, job evaluation uses a collection of techniques to base that money worth of a job on a systematic judgement. b) Job Analysis - we defined this process as the process of examining jobs to uncover exactly what they involve. c) Differences - if job evaluation is to place relative values on jobs, then there must be enough differences between them for a comparison to be made.

EXTENSION 4
Page 65

There are several methods of job evaluation. If you wish to explore these technical aspects further then you could take up extension 4. In general, job evaluation aims to compare jobs in terms of things like:

- working conditions
- physical effort
- mental effort
- skill levels
- levels of training and education needed
- amount of responsibility attached to job
- experience needed
- special abilities needed

ACTIVITY 45
Time guide
5 mins

Suppose a major job evaluation exercise of everybody's job is carried out in a firm.

What do you think the benefits are likely to be for the employer and the employees -

Write down three advantages

* _____

_____

* _____

_____

* _____

_____

---

* If it is accepted by the people who work in an organisation then at least the basis upon which their job is valued is known or can be found out.

* The levels of pay for particular grades of job can be set and differentials between them will be based on an objective assessment of what they involve.

* Because job evaluation aims to be objective, it can provide the starting point for reaching an agreement over wage structures with unions.

* When changes are needed, it provides a means of re-evaluating the requirements of jobs and can provide a starting point for negotiating changes which may be needed in the payment structure.

5 Summary

* Fringe benefits - may improve our standard of living although they don't directly affect pay levels.

Without some systematic way of measuring work, what is 'fair' pay tends to be a very personal judgement.

* Job Evaluation - is a method of deciding the relative money value of different jobs in a systematic way.

PART E PERFORMANCE CHECKS

1 End Check

Time guide 60 mins

You may review your understanding of the Unit as a whole by completing this group of questions. DON'T GUESS THE ANSWERS - if you're not sure, flick back into the Unit and check before responding.

If you are still unsure then put a question mark against your response before proceeding.

TRUE/FALSE

1 If the government follows policies to expand the economy increasing purchasing power, employers may be relatively stronger than employees in bargaining over pay and working conditions. _____

2 Under time rates a person is paid according to the number of hours he works. _____

3 Flexitime systems build in a period in the middle of the day called core time during which everyone who is going to work that day must attend. _____

4 If a person is off sick under a flexitime system, he can still make up his hours some other day. _____

5 Under incremental systems people who are not on the bar will normally receive two elements in their annual pay rise. The first is the increment and the second is the cost of living increase negotiated each year. _____

6 Pure piece-work and pure commission are very similar. A pure piece-worker is paid a given sum for each item produced. A person paid purely by commission receives a sum for each item sold. _____

7 Fringe benefits are only available to senior management. _____

8 Fringe benefits contribute to your standard of living without affecting wage levels. _____

COMPLETION

Respond by completing each sentence with a suitable word or words.

9 Standard time systems are designed to _____ savings by fast work between the company and the operator.

10 A _____ _____ of bonus encourages operators who can only manage small time savings.

11 The system under which people are paid a daily rate for an agreed level of output is called _____ _____.

12 _____ _____ is an approach used to place a money value on jobs by evaluation or comparing them in a systematic manner.

13 _____ _____ is the process of examining jobs to see exactly what they involve.

14 A profit sharing scheme pays a _____ - _____ to everybody entitled to the bonus.

15 If some groups can boost their earnings by bonus payments and other groups cannot there will be an erosion of _____.

16 Discussions between unions and employers to find ways of improving output in return for increased wage levels are called _____ _____.

MULTIPLE CHOICE

Respond to each question by putting a mark against the ONE which is most correct.

17 What will be the gross pay for this operator?

Standard Time	Hourly Rate	Time Taken To complete	Time Saved	Standard Pay	Bonus Paid	Total Pay
				hours spent multiplied by hourly rate	½ time saved x hourly rate	
9 hours	£1.50	6 hours				

a) £14.50

b) £10.50

c) £9

d) £4.83

18 A variable rate of bonus is designed to help

a) fast operators

b) slow operators

c) people who are only able to make small time savings

d) people whose output is affected by slower operators.

19 Which of the following is a common aim of a payment system?

a) to expand the economy

b) to keep staff whom you value

c) to control inflation

d) to iron out the differences between one group of workers and another.

20 A person on a fixed wage which is reviewed at regular intervals may find his pay rise linked to a system of

a) performance appraisal

b) job analysis

c) job evaluation

d) incremental points

21 If a government wants to expand the economy it may influence wage levels by

a) passing legislation to curb union power

b) introduce strict cash limits on pay settlements

c) increase taxation so that people are left with less in their pockets

d) relax pay restraints so that companies who can afford large increases are in a better position to give them.

22 In a flexitime system the standard day is

a) the number of hours a person can take off in the period

b) the period of the day during which everyone must attend

c) the maximum amount of under-worked time a person is allowed in the period

d) the number of hours a person will be allowed if he is absent.

23 The role of job evaluation is to

a) examine jobs to see what they involve

b) find better work methods

c) carry out the same amount of work with fewer people

d) place a money value on a job

24 Flexitime means that

a) people have to work longer hours

b) people work shorter hours

c) people can work shorter hours occasionally

d) people can work whenever they like

END CHECK - Checkout

Audio Tape Side 2 Time guide 35 mins

The answers and explanations for these End Checks are on Side 2 of our Audio Tape. Have your responses with you as you play this tape. As you listen you can check out how well you have done and make notes as you proceed.

2 Tutor Check

Time guide 60 mins

Read the following case incident, then deal with the accompanying questions.

The XYZ company pays all its shopfloor staff on time rates, and its supervisory and management staff on an incremental system. There is discontent on the shopfloor because some groups have better overtime opportunities than others. Supervisors find it hard to get people to work quickly, because slacking on a job could lead to overtime which is paid at time and a half. Some of the least experienced supervisors have found themselves on incremental points which can mean that a number of their workteams take home a bigger wage packet in a good week. Managers and supervisors have little incentive to work harder themselves, because increments are received automatically and the rules about transfers between jobs are so strict as to rule out any merit awards.

1 Briefly describe how incremental pay systems work.

2 Briefly describe how time rate systems work.

3 It has been suggested that the introduction of payment by results would be a better payment system for shopfloor workers. Describe any two payments by results systems and suggest how this might change the attitudes of shopfloor workers.

4 It has been suggested that changes should be made in the methods of paying supervisory and managerial staff. What changes would you suggest and how do you think changes affect the attitudes of supervisors towards their work?

Send to Tutor

Now get your answers to your study tutor either by post or handing it over personally. You will receive your tutor's assessment and comment back through the post as soon as can be managed.

3 Work Based Project

Time guide 60 mins

Find out about the different payment systems at your place of work. You may find your personnel department or wages section can help you here.

1 Draw up a table showing which payment systems apply to what types of work. Here is a short example of what I mean.

Payment System	Type of work
Fixed wage with annual review	Managerial
Measured day work	Machine Operators

2 Now think about the problem of fair pay. If the various payment systems in use have led to any notion of unfairness, try to decide the reasons why. For example, have differentials been eroded by bonus systems? If the payment systems in use haven't led to any notion of unfairness try to list or describe the reasons why they work effectively in this respect.

3 Consider how the members of your work team are paid. Try to list the advantages and benefits of this method, and the problems and disadvantages.

4 List the factors, such as the type of industry you are in, the economic climate in which you operate which you feel are likely to be important influences in the next round of pay negotiations. Where possible give reasons for including each item in your list.

Send to Tutor

Now get your answers to your study tutor either by post or handing it over personally. You will receive your tutor's assessment and comment back through the post as soon as can be managed.

PART F UNIT REVIEW

1 Return to Objectives

Having completed your work on this unit let's review how you feel about each of our four opening objectives. I'll repeat them here and add comment.

You'll be better able to

* DESCRIBE THE AIMS OF PAYMENT SYSTEMS

We looked in detail at the aims of payment systems. To achieve all of the aims we identified can be very difficult. How do you motivate employees by payment systems based on results and at the same time keep differentials with people not paid by results? If you feel that you're clear about the aims of payment systems and can see ways in which they are being achieved or not being achieved where you work then you've met this objective.

Now to our second objective.

* UNDERSTAND THE CONTEXT WITHIN WHICH WAGE LEVELS ARE DETERMINED

We looked at various things which influence wage levels apart from the payment system itself. For example, the economies of wage determination, government policy, the unionisation of people in a plant. If your have gained a greater awareness of the things which influence pay levels when they are negotiated each year, then you've achieved this objective.

Now to our third objective.

You'll be better able to

* DESCRIBE HOW THE MAIN TYPES OF PAYMENT SYSTEM OPERATE

Part B and C of this unit described the main methods of payment we are likely to come across in this country. There are quite a lot of different methods. If you understand them better now, and feel better able to understand how you and your work team's final wage is arrived at, then you've achieved this objective.

Now to our fourth objective

You'll be better able to

* ASSESS THE EFFECTS OF THE DIFFERENT TYPES OF SYSTEM ON EMPLOYEE ATTITUDES AND MOTIVATION

We have also explored some of the possible effects of different payment systems. Some of these will help you as a supervisor, others may make your job more difficult. If your studies have improved your understanding of how the method of pay affects the members of your work team, you've achieved this objective.

I hope that this work was enjoyable, and useful enough to encourage you to continue your studies.

2 Extensions

I recommend that you take up as many of these extensions as you can. They will further increase your understanding and interest. You will also be able to check out a number of the ideas that I mention in the Unit. The extra time and effort will prove very worthwhile.

EXTENSION 1

Book: Supervisory Studies

Author: P W Betts

Publisher: MacDonald and Evans

EXTENSION 2

Book: Supervisory Management - Principles and Practice

Author: David Evans

Publisher: Holt

Chapter 13 Performance Appraisal

EXTENSION 3

Video: BBC TV Series "Supervisors"
No. 4 - Love or Money

This video explores the problems of motivating work teams and looks at how some supervisors have approached the problem. It lasts about 25 minutes.

EXTENSION 4

Book: Supervisor Management - Principles and Practice

Author: David Evans

Publisher: Holt

Pages 349 - 355

EXTENSION 5

Book: Supervisor Studies

Author: P W Betts

Publisher: MacDonald and Evans

Chapter XV pages 221 - 224

EXTENSION 6

Book: The Choice Series Unit Number 11: Needs and Rewards

Author: Richard Ellingham

Publisher: Northern Regional Management Centre

These extension opportunities can all be taken up via your Support Centre.

They will either have the materials or will arrange that you have access to the materials. However it may be more convenient to check out the materials with your Personnel or Training People at work - they may well give you access. There are other good reasons for approaching your own people, for example they will become aware of your interest and you can involve them in your development.

3 References

REFERENCE 1

Book: Pay at Work

Author: Bill Conboy

Publisher: Arrow Books

REFERENCE 2

Book: Supervision - the Management of Organisational Resources

Author: Sterling H Schoen and Douglas E Durand

Publisher: Prentice Hall Inc

REFERENCE 3

Book: Supervisory Management - Principles and Practice

Author: David Evans

Publisher: Holt

REFERENCE 4

Video: BBC TV Series "Supervisors"
No. 7 - "Problems, Problems"

This video deals with the problem of money as a de-motivator amongst other problems supervisors face. It lasts about 25 minutes.

These references can all be taken up via your Support Centre. They will either have the materials or will arrange that you have access to the materials. However it may be more convenient to check out the materials with your Personnel or Training people at work - they may well give you access. There are other good reasons for approaching your own people, for example they will become more aware of your interest and you can involve them in your development.

If you do wish to make use of these references then don't think that you must read them right through. Just dip into them for a slightly wider treatment of the topic raised by the unit.

I should warn that the language and style of the writing is often difficult to cope with. So don't struggle with it too much. Do what I do when in difficulty, put the book back on the shelf and find a better one!

THE CHOICE SERIES

PRINCIPLES AND PRACTICE OF SUPERVISION

11 Needs and Rewards
12 Enriching Work
13 Workteams
14 Team Leading
15 Leading Change
16 Organisation Systems
17 Supervising in the System
18 Supervising with Authority
19 Workplace Control
20 Taking Decisions

TECHNICAL ASPECTS OF SUPERVISION

30 Looking at Figures
32 Using Graphs
33 Method Study
34 Easy Statistics
35 Quality Control
37 Controlling Output
38 Value Analysis
39 Quality Circles
40 Computers
41 Stores Control
42 Managing Time
43 Descriptive Statistics
45 Supervisors & Marketing

COMMUNICATION

60 Communicating
61 Speaking Skills
62 Writing Skills
63 Communication Systems
64 Orders and Instructions

ECONOMIC AND FINANCIAL ASPECTS

70 Accounting for Money
71 Control via Budgets
72 Cost Reduction
73 Wage Payment Systems
74 The National Economy

INDUSTRIAL RELATIONS

80 Training Plans
81 Training Sessions
82 Discipline and the Law
84 Health and Safety
85 Industrial Relations in Action
86 Equality at Work
87 Hiring People
88 Supervising and the Law